

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SSO-00 NSCE-00 INRE-00 USIE-00 PA-01  
PRS-01 L-03 H-01 SP-02 AID-05 EB-08 NSC-05  
TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03  
LAB-04 SIL-01 PM-04 DODE-00 /084 W  
-----021544Z 035765 /40

O R 021445Z APR 77

FM AMEMBASSY HELSINKI  
TO SECSTATE WASHDC IMMEDIATE 1178  
INFO AMEMBASSY BONN  
AMEMBASSY COPENHAGEN  
AMEMBASSY OSLO  
AMEMBASSY STOCKHOLM  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS

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EO 11652: N/A  
TAGS: EFIN, FI  
SUBJECT: IMPACT ON FINLAND OF SCANDINAVIAN DEVALUATIONS

1. SUMMARY: DEVALUATIONS OF SWEDEN, NORWAY AND DENMARK  
HAVE PUT CONSIDERABLE PRESSURE ON BANK OF FINLAND AND GOVERN-  
MENT TO DEVALUE FINNMARK, WHICH OBSERVERS AGREE IS BASICALLY  
OVERVALUED. DEVALUATION WIDELY EXPECTED EARLY NEXT WEEK,  
BUT WHETHER IT WOULD BE MODEST DEVALUATION OR LARGER ONE  
REQUISITE TO DEAL WITH FUNDAMENTAL DISEQUILIBRIUM IN FINLAND'S  
FOREIGN ACCOUNTS IS UNCERTAIN. DEVALUATION OF FINNMARK WOULD  
BE BETTER-TIMED ECONOMICALLY IF IT TOOK PLACE AS EXPORT  
MARKETS BEGIN TO REVIVE. IT AWKWARD POLITICALLY AS WELL  
SINCE IT FURTHER COMPLICATES FLOUNDERING INCOMES NEGOTIATIONS,  
AND PRESENT MINORITY GOVERNMENT LACKS BROAD SUPPORT FOR  
AUSTERITY MEASURES TO MAKE A DEVALUATION STICK. FOLLOW-  
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ING EXCHANGES IN NORDIC COUNCIL ON FRG PARTICIPATION  
IN NATO EXERCISE IN NORWAY, THIS IS SECOND EXACERBATION  
IN RECENT DAYS OF FINLAND'S RELATIONS WITH OTHER NORDIC  
COUNTRIES. END SUMMARY.

2. ACCORDING TO MAUNO KOIVISTO, GOVERNOR OF THE BANK  
OF FINLAND, FINNISH AUTHORITIES HAD NO ADVANCE KNOWLEDGE

OF THE DECISIONS OF SWEDEN, NORWAY AND DENMARK TO DEVALUE THEIR CURRENCIES IN RELATION TO OTHER CURRENCIES IN THE EC JOINT FLOAT. OFFICIALS OF THE TWO LEADING BANKS WERE ALSO TAKEN COMPLETELY BY SURPRISE. WHILE NOTING THAT DEVALUATIONS SMALL THEY EXPRESSED CONCERN ABOUT DANGER OF COMPETITIVE DEVALUATIONS TO MAINTAIN EXPORT SHARES IN STAGNANT MARKETS AND ABOUT EFFECT ON FINLAND'S COMPETITIVE POSITION, AS WELL AS SURPRISE THAT NORWAY, WITH ITS OIL RESOURCES, JOINED IN. FIRST REACTIONS REPORTED IN PRESS INDICATE A PREPONDERANCE OF OPINION AMONG ECONOMIC DECISION-MAKERS THAT DEVALUATION OF THE FINNMARK WILL LIKELY BE UNAVOIDABLE AND PROBABLY AT A LARGER PERCENTAGE THAN SWEDEN. PRODUCTIVITY STATISTICS INDICATE THAT FINLAND HAS ALREADY LOST 20 PERCENT OF ITS PRICE COMPETITIVENESS VIS-A-VIS ITS TRADING PARTNERS SINCE 1972.

3. PRESS AND RADIO REPORTS INDICATE THAT THE GOVERNMENT WILL RECEIVE THE BANK OF FINLAND'S VIEWS ON MONDAY. PRIME MINISTER MIETTUNEN SAID THAT THE GOVERNMENT WILL PROBABLY NOT HAVE A SPECIAL MEETING DURING THE WEEKEND. KOIVISTO SAID NO FOREIGN EXCHANGE QUOTATIONS WILL BE MADE ON MONDAY. (SINCE FINNMARK RARELY USED IN INTERNATIONAL TRANSACTIONS THIS APPEARS TO BE OF MODEST CONSEQUENCE.) KOIVISTO, SEEMINGLY DISPLEASED ABOUT LACK OF KNOWLEDGE BEFOREHAND EVEN THOUGH SWEDEN'S CENTRAL BANK HEAD HAD VISITED HIM MARCH 26 AND NORDIC PRIME MINISTERS HAVE BEEN HERE DURING WEEK FOR NORDIC COUNCIL MEETING, COMMENTED THAT FINLAND DOES NOT NECESSARILY HAVE TO FOLLOW WHAT OTHER NORDIC COUNTRIES LIMITED OFFICIAL USE

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DO.

#### 4. OUR COMMENTS:

A. FINLAND'S HIGH INFLATION IN RECENT YEARS AND THE INABILITY OF RECENT GOVERNMENTS AND THE PRESENT MINORITY GOVERNMENT TO GAIN SUPPORT ON THE LEFT FOR FISCAL POLICIES NECESSARY TO DAMPEN INFLATION HAVE CALLED INTO GRAVE DOUBT THE REALISM OF THE GOVERNMENT/BANK OF FINLAND STRATEGY OF HOLDING FINNISH PRICE INCREASES BELOW THOSE OF WESTERN TRADING PARTNERS UNTIL FINNISH COMPETITIVE ABILITY RESTORED. HOWEVER, MANY OBSERVERS HAVE FELT THAT DEVALUATION, INCREASINGLY EXPECTED BY INDUSTRIAL, FINANCIAL AND BUSINESS LEADERS, WOULD BE BETTER TIMED WHEN EXPORT MARKETS BEGIN TO REVIVE. THEN INCREASED COMPETITIVENESS WOULD TRANSLATE INTO GREATER EXPANSION OF EXPORTS.

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B. FINNISH DEVALUATION NOW WOULD BE ESPECIALLY  
AWKWARD IN TWO IMPORTANT POLITICAL RESPECTS. ONE IS,  
AS MIETTUNEN NOTED, THAT IT FURTHER COMPLICATES THE  
FLOUNDERING INCOMES NEGOTIATIONS. UNIONS, HIGHLY  
SENSITIVE TO LOSS OF REAL PERSONAL INCOME ENTAILED BY  
DEVALUATION, HAVE BEEN PRESSING FOR INCLUSION IN WAGE  
CONTRACTS OF CLAUSES NULLIFYING THE CONTRACTS IN EVENT  
OF DEVALUATION. THE SECOND COMPLICATION IS THAT THE  
PRESENT MINORITY GOVERNMENT LACKS THE BROAD SUPPORT  
REQUISITE TO ENFORCE WAGE AND PRICE DISCIPLINE NECESSARY  
FOR A DEVALUATION TO BE MORE THAN TEMPORARY CURE.

C. A SWEDISH DEVALUATION HAS BEEN LOOKED AT BY  
SOME AS PROVIDING A RATIONALE OF SORTS FOR FINNISH  
POLITICIANS TO AGREE TO DEVALUE, AN EXTREMELY UNPOPULAR  
ACT. THE APPARENT SWEDISH FAILURE TO TIP THE FINNS OFF  
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DESPITE VISIT ON MARCH 26 OF THE SWEDISH CENTRAL BANK

DIRECTOR AND CURRENT NORDIC COUNCIL MEETING HERE MAY  
LEAD POLITICIANS TO TRY TO DEFLECT NEGATIVE FINNISH  
REACTION TOWARD THE SWEDES IF THE FINNMARK IS DEVALUED  
IN THE NEXT FEW DAYS.

D. THE VALUE OF THE FINNMARK WOULD BE ADJUSTED VIS-  
A-VIS ALL CURRENCIES SLIGHTLY UNDER PRESENT FORMULA  
TYING ITS VALUE TO A BASKET OF CURRENCIES INCLUDING  
THOSE OF SWEDEN, NORWAY AND DENMARK. IF GOF AND BANK  
OF FINLAND DECIDE TO DEVALUE, CHOICE WILL HAVE TO BE MADE  
BETWEEN A MODEST DEVALUATION IN LINE WITH THE OTHER  
NORDIC COUNTRIES OR THE MUCH LARGER ONE THAT IN VIEW  
OF THE EXPORT AND IMPORT INELASTICITIES THE FINNS FACE  
WOULD BE CALLED FOR TO RESTORE EQUILIBRIUM IN FINLAND'S  
FOREIGN ACCOUNTS.

E. THE APPARENT FAILURE OF THE SWEDES, NORWEGIANS  
AND DANES TO INFORM THE FINNS WHILE THEY THEMSELVES  
ACTED IN CONSULTATION WITH PARTNERS IN EUROPEAN SNAKE  
IS THE SECOND EXACERBATION OF FINLAND'S RELATIONS WITH  
ITS NORDIC BRETHREN IN RECENT DAYS, THE OTHER BEING THE  
EXCHANGES IN THE NORDIC COUNCIL CONCERNING FRG TROOPS'  
PARTICIPATION IN NATO EXERCISES IN NORWAY (SEPTTEL FOLLOWS).  
BOTH SETS OF DEVELOPMENTS REFLECT IN DIFFERENT WAYS THE  
INCREASING ECONOMIC AND MILITARY SIGNIFICANCE OF THE  
FRG, AND DIFFICULTIES IN ADJUSTING TO THE CHANGING RELATION-  
SHIPS THAT ENSUE.

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## Message Attributes

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